

## SPORTS AND ENTERTAINMENT DISTRICT

### Budget Change Item

#### 1. SPORTS AND ENTERTAINMENT DISTRICT (MILWAUKEE BUCKS ARENA FACILITY)

	<b>Governor (Chg. to Base)</b>	<b>Jt. Finance (Chg. to Gov)</b>	<b>Net Change</b>
BR	\$220,000,000	- \$220,000,000	\$0
GPR	\$25,234,500	- \$25,234,500	\$0
GPR-Lapse	<u>22,434,500</u>	<u>- 22,434,500</u>	<u>0</u>
Net GPR	\$2,800,000	- \$2,800,000	\$0

**Governor:** Authorize the Department of Administration (DOA) to issue \$220,000,000 in GPR-supported, state appropriation bonds to make a grant to assist a sports and entertainment district in the construction of sports and entertainment facilities used principally for professional basketball, including the acquisition or lease of property. The bill would also provide a net amount of \$2,800,000 GPR in 2016-17 from a newly-created, annual debt service appropriation to reflect an estimate of the initial debt service payment on the bonds.

#### State Appropriation Bonds

As stated in the State of Wisconsin Continuing Disclosure Annual Report, December 26, 2014, appropriation bonds are not considered public debt of the state and thus are not subject to the state's constitutional debt limit or any limitations relating to the issuance of public debt. The disclosure also indicates that the payment of principal, and premiums, if any, and interest on the bonds are subject to annual appropriation. That is, payments due in a state fiscal year are made only to the extent that sufficient amounts are appropriated by the Legislature. The state would not be legally obligated to appropriate the amounts for payment of debt service on the bonds, and if it does not do so, it would incur no liability to the owners of the bonds. The payment of the bonds would be at the discretion of the Legislature.

However, under current law, recognizing its moral obligation to do so, the Legislature expresses its expectation and aspiration that it shall make timely appropriations from moneys in the general fund that are sufficient to pay the principal and interest due with respect to any appropriation obligations in any year. This moral obligation pledge would apply to the \$220,000,000 in appropriation bonds that would be authorized to assist a sports and entertainment district. The state has issued appropriation bonds in the past to refinance the state's pension and accumulated sick leave conversion liabilities and to repurchase the state's tobacco settlement revenues, which had earlier been securitized to a third party issuer.

Specify the following related to the appropriation obligation bonds issued by DOA:

a. the sum of appropriation obligations issued for the facilities may not exceed \$220,000,000, excluding any amounts representing accreted interest or original issue discount;

b. no appropriation obligations may be issued unless DOA determines that the sports and entertainment district has secured additional funding for the project in an amount at least equal to \$300,000,000; and

c. if the appropriation obligations are issued and if, for any reason, the facility that is constructed with funds from the grant is not used principally for professional basketball, the state would retain an ownership interest in the facility equal to the amount of the state's grant.

Require that the state assistance (appropriation bond proceeds) be in the form of a grant to the sports and entertainment district. Create an all monies received appropriation for receipt of the appropriation obligation proceeds and payment of the grant to the sports and entertainment district and an annual, GPR debt service appropriation to make annual debt service payments on the bonds.

Provide \$25,234,500 GPR in 2016-17 to establish an appropriation level to fund principal and interest payments on the appropriation bonds. Estimate GPR-lapse amounts of \$22,434,500 in 2016-17 from the annual debt service appropriation to reflect an estimate of the initial 2016-17 debt service payment amount of \$2,800,000 GPR that would actually be made. Beyond the 2015-17 biennium, GPR debt service costs associated with the \$220,000,000 in appropriation bonds would depend on the amortization structure and tax status of the bonds and the corresponding interest rates.

While the bonding transaction for the proposed sports and entertainment district arena facility has not yet been structured, DOA indicates that it would likely include components similar to existing appropriation obligation bond issues and the funding in the bill reflects those components. As a result, a portion of the GPR-Lapse amount is associated with the legal agreements that govern the appropriation bonds, which could require that the annual debt service appropriation for repayment of the bonds equal the maximum possible payment that could be made in each succeeding year. Because there could be large principal payments scheduled in 2017-18, the GPR appropriation in 2016-17 would be set at a higher level than debt service in that year, and much of the appropriated funds would not actually be expended in 2016-17 and would lapse (revert) to the general fund.

*Legislative Findings.* Specify that the Legislature finds and determines that sports and entertainment facilities encourage economic development and tourism in this state by reducing unemployment and by bringing needed capital into the state for the benefit and welfare of people throughout the state and that it is therefore in the public interest and will serve a public purpose, and it is the public policy of this state, to assist a sports and entertainment district in the construction of sports and entertainment facilities.

### **Creation of the Local Sports and Entertainment District**

Create a sports and entertainment special purpose district (District) for Milwaukee County and the City of Milwaukee.

*Public Purpose.* Specify that the Legislature determines that the provision of assistance by state agencies to a District and any appropriation of funds to a District would serve a statewide public purpose by assisting the development of sports and entertainment facilities in the state for providing recreation, by encouraging economic development and tourism, by reducing unemployment, and by bringing needed capital into the state for the benefit and welfare of people throughout the state.

Specify that the Legislature determines that a District would serve a public purpose in political subdivisions in which it is located by providing recreation, by encouraging economic development and tourism, by reducing unemployment, and by bringing needed capital into the District's jurisdiction for the benefit of people in the District's jurisdiction.

*Organization of the District.* Specify that the District: (a) is a local governmental unit; (b) is a body corporate and politic; (c) is separate and distinct from, and independent of, the state; (d) is separate and distinct from, and independent of, the local units within its jurisdiction ("local unit" would be defined by referencing the description under "Jurisdiction of the District," which currently means only Milwaukee County and the City of Milwaukee); (e) has the powers enumerated in statutes for the District; and (f) must be named by the District board and have a name that includes "Sports and Entertainment District."

*Jurisdiction of the District.* Specify that a District's jurisdiction would be any county with: (a) a population of more than 500,000; and (b) a first class city that is located wholly or predominantly in that county, provided that the city includes the principal site of a basketball arena that is home to a professional basketball team that is a member of a league of professional basketball teams with home arenas in at least 10 states, and that is approved by that league for use as a home arena for that basketball team. Specify that once the District is created, the District's jurisdiction would remain fixed even if population figures for the county decline below 500,000. Currently, only Milwaukee County, the City of Milwaukee, and the Milwaukee Bucks team in the National Basketball Association meet this description.

*District Board.* Specify that the District would be governed by its board. The board would consist of at least nine members and could consist of up to eleven members as follows:

- a. nine members appointed by the Governor, subject to confirmation by the Senate;
- b. one member appointed by the county executive of a county making up the District's jurisdiction if the county provides funding to construct, equip, or improve sports and entertainment facilities as provided under the bill, with the appointment subject to confirmation by a majority of the members-elect of the county board; and
- c. one member appointed by the mayor of a first class city within the District's jurisdiction if the city provides funding to construct, equip, or improve sports and entertainment facilities as provided under the bill, with the appointment subject to confirmation by a majority of the members-elect of the city's common council.

Require members of the District board to be Wisconsin residents who have executive and managerial experience. Specify that no member may hold elective public office or be a candidate for elective public office. Provide that no member of the District board may receive

compensation for performing his or her duties. Allow District board members to be reimbursed for actual and necessary expenses incurred in the performance of their duties. Specify that upon confirmation of a board member appointed by a county executive or mayor, the appointing authority would have to certify the member to the Secretary of the Department of Administration.

Require the Governor to designate one member as chairperson of the District board. Specify that upon the appointment and qualification of a majority of the members of the District board, the District board may exercise the powers and duties of the board. Provide that a majority of the current membership of the District board would constitute a quorum to do business. Allow the District to take action based on the affirmative vote of a majority of those members of the District board who are present at a meeting of the board.

*District Board Terms of Office.* Specify that members appointed by the Governor and confirmed by the Senate would serve staggered, seven-year terms and that such members would hold their positions on the board until a successor is appointed by the Governor and confirmed by the Senate. Specify that the Governor's initial appointees could take their seats immediately upon appointment and qualification and would have terms that expire as follows: (a) three on July 1, 2020; (b) three on July 1, 2021; and (c) three on July 1, 2022. Allow the Governor to select which initial members would have each of these expiration dates for their terms.

Specify that not later than 90 days after the effective date of the bill, the Governor would be required to notify the Senate of his or her initial appointments to the District board. Require that no later than 30 days after this notification, the Senate would be required to confirm or reject the Governor's appointees.

Specify that any person appointed by the county executive and confirmed by the county board would serve a seven-year term, except that the initial term of the first member so appointed would be five years. Provide that any person appointed by the mayor and confirmed by the common council would serve a seven-year term, except that the initial term of the first member so appointed would be six years.

*Powers of the District.* Specify that the District would not have the authority to issue bonds or levy or impose a tax. Except for these restrictions, specify that the District would have all of the powers necessary or convenient to carry out the purposes and provisions of the law creating the District. In addition, grant the District specific powers to do the following:

- a. Adopt bylaws to govern the District's activities;
- b. Sue and be sued in its own name, plead, and be impleaded;
- c. Maintain an office;
- d. In connection with sports and entertainment facilities:

- (1) Acquire, construct, equip, maintain, improve, operate, and manage the sports and entertainment facilities as a revenue-generating enterprise, or engage other persons to do these things.

(2) Acquire; lease, as lessor or lessee; use; transfer; or accept transfers of property, and assume debt payments and outstanding obligations for the property acquired or accepted.

(3) Improve, maintain, and repair property.

(4) Enter into contracts, subject to such standards as may be established by the District board. The District board may award any such contract for any combination or division of work it designates and may consider any factors in awarding a contract, including price, time for completion of work, and qualifications and past performance of a contractor.

(5) Sell or otherwise dispose of unneeded or unwanted property.

e. Employ personnel, and fix and regulate their compensation; and provide, either directly or subject to an intergovernmental cooperation agreement with a municipality as a participant in a benefit plan of another governmental entity, any employee benefits, including an employee pension plan.

f. Purchase insurance, establish and administer a plan of self-insurance or, subject to an intergovernmental cooperation agreement with another governmental entity, participate in a governmental plan of insurance or self-insurance.

g. Mortgage, pledge, or otherwise encumber the District's property or funds.

h. Maintain funds and invest the funds in any investment that the District board considers appropriate.

i. Promote, advertise, and publicize its sports and entertainment facilities and related activities.

j. Set standards governing the use of, and the conduct within, its sports and entertainment facilities in order to promote public safety and convenience and to maintain order.

k. Accept gifts, loans, and other aid.

l. Adopt and alter an official seal.

*Requirements of the District.* Require the District board to maintain a special fund into which it deposits all state revenue obligation proceeds it receives in the form of grant from the state. Specify that moneys in the fund may only be expended for the construction of sports and entertainment facilities, including the acquisition or lease of property. Specify that the District may not deposit any other moneys into the special fund, except that the District would have to credit all earnings on the revenues in the special fund to the special fund. Prohibit any money in the special fund from being expended for the purpose of operating or maintaining sports and entertainment facilities or a basketball arena.

Require the District to adopt a calendar year as its fiscal year for accounting purposes and annually prepare a budget for the District. Specify that rates and other charges received by the District would have to be used for the general expenses and capital expenditures of the District. Require the District to maintain an accounting system in accordance with generally accepted accounting principles and have its financial statements audited annually by an independent

certified public accountant.

Specify that all moneys received by the District, whether from the state, from the first class city or county that is part of the District's jurisdiction, or from any other source, are trust funds to be held and applied solely as provided in the law establishing the District. Require any officer with whom, or any bank or trust company with which, those moneys are deposited to act as trustee of those moneys and to hold and apply the moneys for the purposes of the District.

*Dissolution of the District.* Prohibit the District from dissolving and winding up its affairs unless the appropriation obligations issued by the state related to the District have been retired.

*Lease with a Basketball Team.* Specify that if the District board enters into a lease with a professional basketball team for the use of the sports and entertainment facilities, the lease must include a provision that states that if the team breaks or otherwise fails to fulfill its obligations under the lease, the professional basketball team would have to pay the state an amount sufficient to retire the state appropriation obligations issued for the sports and entertainment facility.

*Powers Granted to Local Units of Government.* Define a local unit as the first class city or the county included in the District's jurisdiction. Specify that the city or county, in addition to any powers that it may otherwise have, may do any of the following: (a) make grants or loans to the District upon terms that the city or county considers appropriate; (b) expend public funds to subsidize the District; (c) borrow money, as allowed by law, for sports and entertainment facilities or to fund grants, loans, or subsidies to the District; and (d) lease or transfer property to the District upon terms that the city or county considers appropriate.

*Definitions.* Define the following terms relative to the District:

a. "basketball arena" would mean an arena that is principally used as the home arena of a professional basketball team that is a member of a league of professional basketball teams with home arenas in at least 10 states; and

b. "sports and entertainment facilities" would mean property, tangible or intangible, owned in whole or in substantial part, operated, or leased by the District that is principally used for professional basketball, including spectator seating, practice facilities, parking lots and structures, garages, restaurants, concession facilities, entertainment facilities, facilities for the display or sale of memorabilia, transportation facilities, and other functionally related or auxiliary facilities or structures.

*Other Provisions.* Include the District in the definition of a municipality for the purposes of intergovernmental cooperation agreements, which would allow the District to enter into such agreements. Exclude the District board from the definition of "governing board" in the municipal statutes governing the type of investments in which local governing boards may invest their revenues. As described earlier, the District board would be given specific authority to invest District funds in any investment the board considers appropriate.

## **Tax Exemptions**

*Income Tax Exemption of Bond Interest.* Create state tax exemptions for the interest received on the appropriation bonds issued by the state to assist a sports and entertainment

district, or any debt obligations issued by a city or county identified in the jurisdiction of a sports and entertainment district to assist such a district. Specify that the exemption of interest on these obligations would extend to state income taxes on individuals, corporations, tax-option corporations, and insurance companies.

*District Income Tax Exemption.* Specify that the income of a sports and entertainment district would be exempt from the state corporate income and franchise tax.

*Property Tax Exemption.* Current law [s. 70.11(36) of the statutes] provides a property tax exemption for property consisting of or contained in a sports and entertainment home stadium of a professional athletic team that is a member of a league that contains teams with home stadiums in other states. The exemption includes parking lots, garages, restaurants, parks, concession facilities, entertainment facilities, transportation facilities, and other functionally related or auxiliary facilities or structures.

*Sales Tax Exemption.* Current law [s. 77.54(41) of the statutes] provides an exemption from the state sales tax for the sales of building materials, equipment, and supplies used solely in the construction, renovation, or development of a sports stadium that would qualify for the current law property tax exemption.

### **Bradley Center Sports and Entertainment Corporation**

Allow the Bradley Center Sports and Entertainment Corporation to sell, exchange, or otherwise divest itself of the Bradley Center to a sports and entertainment district created under the bill. Also, allow the Corporation to dissolve and wind up its affairs, upon the sale, exchange, or other divestiture of the Bradley Center. Under current law, the Corporation is prohibited from selling, exchanging, or otherwise divesting itself of the Bradley Center and can only dissolve and wind up its affairs if ordered by the Legislature through legislation.

The Bradley Center Sports and Entertainment Corporation was created as a public body corporate and politic under Wisconsin statute. The Corporation's board members are appointed by the Governor. The Corporation was established to receive the Bradley Center, which is located in the City of Milwaukee, including any related or auxiliary structure or facility. The Corporation's duties include owning and operating the Bradley Center for the benefit of the citizens of this state and adequately providing for the long-term maintenance of the facility. The Bradley Center serves as the current home arena of the Milwaukee Bucks.

The state does not provide ongoing funding to the Bradley Center. However, the state has provided \$10 million in general obligation bond proceeds as grants to the Corporation to assist with renovations and improvements at the facility (authorized under 2009 Act 28 and 2011 Act 32). The bonds for these projects were issued as 10- and 20-year maturities.

**Joint Finance:** Delete provision.